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# IRC Estimated % Uninsured Motorists by State in 2007

## Nationwide 13.8%

| <u>State</u> | <u>Uninsured</u> | <u>State</u>   | <u>Uninsured</u> | <u>State</u>        | <u>Uninsured</u> |
|--------------|------------------|----------------|------------------|---------------------|------------------|
| New Mexico   | 29%              | <b>Montana</b> | <b>15%</b>       | Kansas              | 10%              |
| Mississippi  | 28%              | Colorado       | 15%              | Connecticut         | 9%               |
| Alabama      | 26%              | DC             | 15%              | Virginia            | 9%               |
| Oklahoma     | 24%              | Indiana        | 14%              | South Carolina      | 9%               |
| Florida      | 23%              | Missouri       | 14%              | <b>Idaho</b>        | <b>9%</b>        |
| Tennessee    | 20%              | Rhode Island   | 14%              | <b>Wyoming 9%</b>   |                  |
| California   | 18%              | Alaska         | 13%              | New Jersey          | 8%               |
| Arizona      | 18%              | Maryland       | 12%              | Utah                | 8%               |
| Michigan     | 17%              | Hawaii         | 12%              | Nebraska            | 8%               |
| Washington   | 16%              | Louisiana      | 12%              | West Virginia       | 8%               |
| Ohio         | 16%              | Iowa           | 12%              | Pennsylvania        | 7%               |
| Kentucky     | 16%              | Minnesota      | 12%              | <b>South Dakota</b> | <b>7%</b>        |
| Texas        | 15%              | North Carolina | 12%              | Vermont             | 6%               |
| Nevada       | 15%              | Georgia        | 12%              | New York            | 5%               |
| Arkansas     | 15%              | New Hampshire  | 11%              | <b>North Dakota</b> | <b>5%</b>        |
| Wisconsin    | 15%              | Oregon         | 11%              | Maine               | 4%               |
| Illinois     | 15%              | Delaware       | 10%              | Massachusetts       | 1%               |



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provides estimates of uninsured registered motor vehicles using different non-compliance rates.

Table 6

**Estimated Number Of Registered Motor Vehicles Without Liability Insurance Using July 2005 Data**

|                | Registered Vehicles | 9 Percent     | 15 Percent     |
|----------------|---------------------|---------------|----------------|
| Passenger Cars | 489,149             | 44,023        | 73,372         |
| Trucks *       | 332,242             | 29,902        | 49,836         |
| <b>Total</b>   | <b>821,391</b>      | <b>73,925</b> | <b>123,208</b> |

\* Includes trucks over 1 ton.

**Source: Compiled by Legislative Audit Division from Department of Justice Records.**

**Conclusion: Between 9 percent and 15 percent of the motor vehicles registered in Montana do not have motor vehicle liability insurance.**

### **Effective Enforcement Requires Three Types of Controls**

Effectively enforcing liability insurance laws requires three types of controls:

- ▶ Detective controls to identify non-compliance.
- ▶ Preventive controls to deter drivers from non-compliance.
- ▶ Corrective controls to prevent offenders from continuing to drive without insurance.

These controls are intended to encourage or force those individuals who make conscious decisions to not purchase liability insurance to comply with the law.

### **Montana Has Ineffective Controls For Detecting Non-Compliance**

Montana relies upon law enforcement officers to detect non-compliance. However, this is an ineffective control because law enforcement has limited opportunities for checking compliance, such as during infrequent traffic stops, traffic safety checkpoints, and vehicle accident investigations. The National Association of

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more than \$2,000 for the same scenario in the same community. Additionally, premium rates for high-risk drivers were not included in the rate comparison scenarios.

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### Profile of an Uninsured Driver

Industry and academic research about compliance with liability insurance laws indicates uninsured motorists tend to have some common characteristics or factors, such as:

- ▶ Insurance is a low priority. Some individuals place a low priority on purchasing liability insurance.
- ▶ Perceived risks. Some individuals perceive themselves as having minimal assets to protect or at minimal risk of being caught.
- ▶ Poor driving records. Uninsured motorists are more prone to accidents. Additionally, persons with poor driving records are considered higher-risk drivers, resulting in substantially higher insurance costs.
- ▶ Lower socioeconomic status. Uninsured motorists are more likely to be lower income, have less education, and be unemployed or work part-time.

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#### Data Shows Non-Compliance in Montana is Increasing

Department data indicates an increase in convictions related to driving without insurance. Between 2001 and 2004, the number of convictions for either driving without insurance or not showing proof of insurance increased 16.95 percent, with these offenses accounting for 14.9 percent of all traffic offense convictions in 2004. Table 5 provides detailed information about no insurance-related convictions during calendar years 2001-2004.

**Table 5**

#### **No Insurance-Related Convictions In Montana** **Calendar Years 2001-2004**

| <b>Total Convictions</b>  | <b>2001</b> | <b>2002</b> | <b>2003</b> | <b>2004</b> |
|---|-------------|-------------|-------------|-------------|
| Liability insurance violation convictions <sup>1</sup>  | 13,138      | 14,209      | 14,954      | 15,365      |
| <b>Second or Subsequent Convictions</b>   |             |             |             |             |
| 2 <sup>nd</sup> or Subsequent Conviction <sup>2</sup>   | 1,434       | 2,026       | 2,101       | 2,483       |
| 4 <sup>th</sup> or Subsequent <sup>3</sup>  | 256         | 219         | 183         | 219         |
| <sup>1</sup> Includes not having proof of insurance in vehicle or not showing proof of insurance on demand.<br><sup>2</sup> Based on number of motor vehicle registrations suspended.<br><sup>3</sup> Based on number of driver licenses suspended. |             |             |             |             |

Source: Compiled by the Legislative Audit Division from Department of Justice Records (unaudited).

#### Other States' Reported Non-Compliance Rates

The Insurance Research Council estimates 14 percent of motor vehicles nationwide do not have liability insurance. Review of information from other states indicates the percentage of uninsured motor vehicles ranged from approximately 6 percent to more than 20 percent. Information also indicates states with more effective controls had significantly lower non-compliance rates.

#### Montana Uninsured Motorist Estimates

Based on insurance industry estimates, department data, and other states' experiences, we estimate between 9 percent and 15 percent of Montana's registered vehicles (approximately 74,000 to 123,000 vehicles) do not comply with the liability insurance law. Table 6

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Insurance Commissioners reported persons have a 5 percent chance of being caught driving without liability insurance. The association also stated that relying upon law enforcement to detect non-compliance reduces the likelihood non-compliant persons will be caught and increases the likelihood persons will not comply with the law.

#### **Insurance Cards Have Limited Value**

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Detecting non-compliance is further complicated because Montana relies upon insurance cards to demonstrate proof of compliance with the law. Although commonly used to demonstrate compliance, an insurance card is an ineffective control measure. First, insurance cards only demonstrate compliance at the time a card was issued because persons can immediately cancel insurance policies without returning the cards. Second, insurance cards are easily counterfeited using copying and printing technology.

**Conclusion: Montana has relatively ineffective controls to detect non-compliance with the insurance law because of the low risk of being caught driving without insurance. Additionally, insurance cards have limited value for demonstrating proof of compliance.**

#### **Montana's Penalties are Ineffective Preventive Controls**

Montana's penalties appear to be ineffective preventive controls, or deterrents, to driving without insurance. While the financial penalties for driving without insurance range from \$250 to \$500, plus a \$35 court surcharge, the six-month premium for many vehicle owners exceeds the maximum allowable fine. Six-month insurance premiums for drivers with multiple traffic convictions or accidents can be more than twice the cost of the maximum fine. With the relatively low risk of being caught driving without insurance and existing fines, the cost for non-compliance is significantly lower than the cost of purchasing insurance.

Additionally, jail time is generally considered an ineffective deterrent. One study indicated jail time was not an effective deterrent, while higher fines were more effective deterrents. The study indicated most motorists probably don't believe that jail penalties will be enforced. Jail is not a likely option in Montana

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because of jail overcrowding and non-compliance is a non-hazardous offense.

**Conclusion: Montana's penalties are ineffective deterrents to driving without insurance because the penalties are substantially less costly than purchasing liability insurance.**

### **Administrative Sanctions are Ineffective Corrective Controls**

Suspending vehicle registrations and driver licenses is intended to prevent persons from driving uninsured motor vehicles. However, these are relatively ineffective controls because offenders can easily avoid this penalty by selling vehicles to family members or friends. Also, this penalty does not restrict a convicted person's ability to register or drive other vehicles.

**Conclusion: Suspending vehicle registrations and driver licenses are relatively ineffective corrective controls because offenders can easily circumvent the intent of the sanctions.**

### **State Law Impacts Effectiveness of Controls**

Some sections of state law also appear to further diminish the effectiveness of these controls. Enforcement controls, particularly deterrent and corrective controls, are primarily directed at vehicle registrations, which may have limited effect on some offenders. The following bullets provide information about insurance law that warrants legislative consideration.

- ▶ Suspensions may not affect some drivers. Suspending vehicle registrations does not prohibit persons from driving or registering other motor vehicles. Vehicle owners can also sell vehicles to family members or friends to avoid registration suspensions.
- ▶ Suspending registrations may unfairly penalize some vehicle owners. State law mandates suspending vehicle registrations if the driver is convicted of a second or subsequent offense, even if the driver does not own the vehicle and the owner provides liability insurance. For example, if a person borrows an insured vehicle and is subsequently cited and convicted of not showing proof of insurance (second offense), state law still requires suspending the vehicle's registration.
- ▶ State law restricts driver license suspensions. State law requires suspension of driver licenses for fourth or subsequent

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convictions, but only if the vehicle operated at the time is registered to the offender or a member of the offender's immediate family. If an offender is convicted of a fourth offense while driving an uninsured vehicle owned by another person, state law does not permit suspending the offender's driver license.

- ▶ Penalties for convictions. Fines imposed for a first conviction may be the same or greater than fines for second or subsequent convictions. For example, a person convicted of a first offense could be fined up to \$500, while an offender convicted of a second offense is fined \$350.
- ▶ Convicted drivers can retain license plates. Persons cited for second or subsequent driving without insurance violations are not required to appear in court, although state law requires the court confiscate registrations and license plates. While the department would still suspend the registration, these offenders can potentially retain their license plates.

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#### Chapter Summary

Our review indicates a relatively large number of Montana motor vehicles are operated without liability insurance in violation of state law. Additionally, Montana has ineffective controls for detecting non-compliance and enforcing the law. Chapter IV provides information about other states' efforts to improve compliance with mandatory liability insurance laws.

# Chapter IV - Strategies for Improving Compliance With Liability Insurance Laws

## CHAPTER IV OVERVIEW

Other states have implemented systems to improve compliance with liability insurance laws by increasing capabilities for detecting and deterring non-compliance. We conclude Montana could implement alternatives to improve compliance, but the level of improved compliance is not fully known.

### Introduction

This chapter provides information about other states' strategies for improving compliance with mandatory motor vehicle liability insurance laws. Some states have implemented programs that appear to improve their capabilities for detecting and deterring non-compliance.

### Improving Detection of Non-Compliance



We identified three approaches other states implemented to improve detection of non-compliance with insurance laws:

- ▶ Liability insurance sampling programs.
- ▶ Liability insurance reporting systems.
- ▶ Liability insurance verification systems.

### Sampling Programs

These programs select samples of registered motor vehicles and require owners of the sampled vehicles to demonstrate compliance with the law. The programs may also require insurers to verify insurance status of the sampled population. States may also expand the programs to select stratified samples of vehicles previously identified as not having insurance or persons convicted of driving without insurance.

### Sampling Programs May Be Less Costly

Sampling programs may be one of the less costly systems for verifying compliance. During the 2005 Legislative Session, Senate Bill 3 was introduced to implement a sampling program in Montana. The bill did not pass. This bill would have required the department to sample two populations – a sample of all registered motor vehicles and a sample of individuals previously convicted of driving without



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insurance. The Department of Justice estimated total program costs for the 2007 biennium to be approximately \$274,000, including approximately \$34,400 in one-time implementation costs.

### **Sampling Programs are Less Effective Detective Controls**

Sampling programs only detect non-compliance within a sampled population. If sampled populations are stratified to select persons with previous convictions, it further reduces the ability to detect non-compliance in the general population. Sampling systems also place a burden on compliant vehicle owners since they must still demonstrate compliance. Also, these systems do not prevent persons from purchasing insurance to demonstrate compliance and then canceling policies.

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### **Reporting Systems**

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Approximately one-half of the states have implemented liability insurance reporting systems (reporting systems), which appear to significantly improve states' abilities to detect non-compliance. Laws enacting reporting systems require insurers licensed in a state to report insurance policy data. States then compare the vehicle identification numbers (VIN) on vehicle registrations and policy data to identify uninsured vehicles. When these systems detect potential non-compliance, a notice is sent to the registered owner requesting documentation or an explanation of compliance status. For example, part-time residents who store a vehicle during an absence may not be required to have liability insurance. Vehicle owners who do not respond or are unable to substantiate compliance may face additional enforcement or administrative actions. Reporting systems also allow regulatory agencies to periodically check motor vehicle insurance status to improve detection capabilities.

States reported significant improvements in compliance rates after implementing a reporting system. For example, Utah reported non-compliance rates decreased from 23.2 percent to 5.8 percent between 1995 and 2005. Similarly, Florida reported their non-compliance rate for registered vehicles decreased from 18.7 percent to 5.9 percent between 2000 and 2004.

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### **Reporting Systems Are Widely Used**

Reporting systems became increasingly common in the 1990s and approximately half the states have implemented some type of reporting system. Regulatory agencies have substantial experience with reporting systems and have resolved many of the implementation and maintenance difficulties.

### **Reporting System Data is Quickly Outdated**

Reporting systems require insurers to periodically provide policy data, but the data is only valid as of the reporting date. Policy data is constantly changing as vehicle owners cancel policies, change insurers, and sell vehicles. Consequently, there is an increased risk of incorrectly identifying compliance status, which can inconvenience vehicle owners who comply with the law.

### **Reporting System Costs**

Other states have reported implementation costs ranging from approximately \$1 million to \$4 million and similar annual costs for system administration and maintenance. Insurers also incur costs for developing and maintaining reporting systems, which may be passed on to consumers. These costs may be decreasing because many insurers have already developed and implemented reporting systems for other states.

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### **Verification Systems**

Liability insurance verification systems (verification systems) are a new method for detecting non-compliance. This type of system appears similar to those used to verify financial transactions, such as check or credit card purchases, and does not require insurers to provide regular reports of liability insurance policy data. One such system is a web-based inquiry system that allows real-time verification of a motor vehicle's insurance status. Verification systems allow law enforcement, motor vehicle regulatory agencies, and other authorized agencies or personnel the capability of immediately determining whether a valid insurance policy is in-force for any VIN, regardless of vehicle registration status. These systems may pose fewer security risks and privacy issues because data transfers are limited to a specific inquiry and they only report information necessary to confirm insurance status.

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Since verification systems are new, we were unable to identify potential implementation or operational costs. However, these systems are reported to be less costly to regulatory agencies since they probably require less investment in hardware systems. Systems based on industry and regulatory standards and capable of using existing data transfer structures would reduce insurers' costs. Additionally, insurers do not incur costs for providing regular reports of insurance policy data.




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### Some States Have Increased Penalties

Some states have increased penalties to improve deterrent capabilities. In addition to increasing fines, some states also implemented or increased administrative fees for reinstating vehicle registrations and driver licenses.




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### Increasing Corrective Controls

Montana could also use SR22 insurance more extensively to increase assurance repeat offenders continuously provide liability insurance. Since insurers must notify the state if a person cancels an SR22 policy, the state would have increased capabilities to monitor compliance.

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### Effectiveness of Strategies Appears to Vary

It is difficult to accurately determine the impact these programs may have on state compliance rates. Accurately measuring the effectiveness of any of these programs or systems is difficult because most states do not have reliable baseline data for comparison. Also, states calculate compliance rates and enforce insurance laws differently.

Some vehicle owners and drivers will likely disregard the law regardless of improved controls. For many owners and drivers, increased compliance will likely depend upon their perceived risks of being caught. Simply increasing penalties would likely result in only marginal improvements to compliance rates. While some persons may be unwilling to risk paying increased fines or incurring more severe penalties, the risk of law enforcement detecting non-compliance remains relatively low at 5 percent.

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### **Detection Systems Appear to Be More Effective**

Implementing a system for detecting non-compliance could result in greater compliance than only increasing penalties because of the increased risk that non-compliance would be detected. However, the type of detection system implemented would likely affect rates of improved compliance.

Sampling systems are probably the least effective since the rate of detection may remain relatively low, depending on the populations sampled, sample sizes, sampling frequency, and vehicle owners' perceived risks of being identified. It might be even less effective if the law implementing the system allows non-compliant vehicle owners to come into compliance after being notified. Furthermore, a sampling system does not prevent persons from purchasing insurance to demonstrate compliance and then canceling policies.

Reporting and verification systems may be more effective since they would allow the department to regularly check insurance status for all vehicles. Consequently, vehicle owners who purchase and then cancel insurance policies are much more likely to be caught.

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### **Detection Program Costs Will Vary**

Implementation and operational costs for detection programs can vary. Any implementation of a detection program in Montana would likely require increased expenditures. The Legislature could require offenders to pay higher registration and driver license reinstatement fees and fines to offset some program costs.

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### **Impact on Insurance Premium Rates Unknown**

The reports and studies reviewed did not indicate whether increased detection and enforcement reduced insurance premiums, but implementing a program will probably not result in immediate insurance premium rate reductions. Insurance industry representatives said improved compliance with insurance laws would not result in any immediate insurance premium rate reductions since rates are based on prior years data. Since insurance rates are calculated based on various risk factors and claims paid by insurers, industry representatives said other factors, such as improving

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highway safety to reduce the number or severity of accidents, may be more effective in reducing insurance premiums.

**Conclusion:** Montana can improve compliance with the mandatory motor vehicle liability insurance law by enhancing the state's ability to detect, deter, and respond to non-compliance. However, neither the potential reduction in non-compliance nor any estimated cost-benefits can be readily determined. Ultimately, legislators must balance the potential costs for implementing more effective controls and the public benefits of improved compliance with the state's liability insurance law. Since these are legislative policy decisions, this report only provides information about the state's insurance law and alternative enforcement strategies for legislative consideration.